Caribbean developments in housing finance

The Caribbean Association of Building Societies and Housing Finance Institutions (CABSHFI) held its annual meeting in Port of Spain, Trinidad, on 7 November 1988. The meeting was followed by a two day conference with the theme of financing low income housing in small economies.

This article reports on the annual meeting and then summarises some of the major papers presented at the conference.

CABSHFI annual meeting

The executive committee of CABSHFI met in Tobago on 5 November 1988 and the Annual Meeting followed in Trinidad on 7 November. In his chairman's report Freddy Reyes-Perez (Dominican Republic) reported that membership of the Association totalled 49 institutions from 14 countries. The Caribbean Development Bank has 'observer' status. During the year the Banque De L'Union Haitienne became an associate member. It is hoped to expand membership further.

The chairman reported that during the year the Association had maintained its role as a "clearing house", providing member institutions with information on developments in the establishment of housing finance systems.

The Association has devoted major efforts to training and human resource development with the support in particular of the Federal Home Loan Bank of New York. Several member institutions in Trinidad and Tobago, Barbados, Cayman, the Dominican Republic and Jamaica had benefited from the Sister Institutions Programme which had provided invaluable training opportunities. Also, several members benefited from the Bank's School of Education training programme.

Following the 1987 annual meeting in the Dominican Republic a housing finance conference had been held in Puerto Plata and a conference had been arranged following the AGM.

The Association was maintaining its efforts to establish a bank of information on its members.

The Association had maintained international relationships with a number of organisations including the United States Agency for International Development, the Federal Home Loan Bank Board, the United Nations Commission on Human Settlements, and the United States League of Savings Institutions. The Association had been represented at the Inter-American Housing Union meetings in Mexico City in March, the British Building Societies Association Annual Conference in May, the Inter-American Housing Conference in Quito in June and the IUBSSA meetings in Cannes, France, in October.

'Major effort on training'

The newsletter had kept members informed of developments in the Association and it reported on relevant developments.

The executive committee had held three meetings during the year. A meeting in March in Coral Gables, Florida, had been attended by the IUBSSA president and secretary-general and had been followed by a meeting of the IUBSSA review group. A second meeting had been held in July in Nassau in the Bahamas with the third meeting being held immediately before the AGM.

The executive committee

The executive committee of the Association was re-elected. It comprises:

Chairman:
- Dr Freddy Reyes-Perez (Dominican Republic)

Vice-Chairman:
- Carlton Robinson (Trinidad & Tobago)
- Juan Bermudez (Puerto Rico)
- Leonard Ebanks (Cayman Islands)
- Hugh Hamlett (St Vincent)
- Rupert Martyr (St Lucia)
- Harcourt Niles (Barbados)
- Lancelot Reynolds (Jamaica)

Joe Bailey (Jamaica) is secretary-general of the Association and Eric Carlson (IUBSSA senior consultant) is special advisor.

Housing in Trinidad

The Caribbean Conference began with a message from the Honourable Pamela Nicholson, Minister of Settlements and Public Utilities for Trinidad. She stressed that governments were now taking cognisance of the fact that their more effective role was that of enabler and facilitator and that co-operation and collaboration between the public and private sectors was critical to the achievement of the national goal of shelter for all.

The opening address to the conference was given by Arthur Sanderson, the acting Minister of Settlements and Public Utilities. He said that the government which had assumed office in December 1986 had adopted

an approach to housing on the following principles:
(a) Human settlements range from capital cities down to isolated farmsteads. Settlement policy is multisectoral and should be developed within the framework of economic and social planning processes at national, regional and local levels.
(b) There is an acute housing problem in the country with an estimated housing need of between 7,000 and 9,000 units annually to the year 2000.
(c) Housing need at the low income level is particularly urgent.
(d) Housing and home ownership constitute a stabilising force in society.
(e) A land distribution policy is essential to the shelter solution.
(f) Measures employed to solve the shelter problem could also be stimulants to economic activity.
(g) The private sector must be an active partner in the settlements thrust.

Accordingly, housing strategy must embrace land development and distribution, squatter regularisation, regulatory support mechanisms, financial support mechanisms and a psychological turnaround of the dependency syndrome.

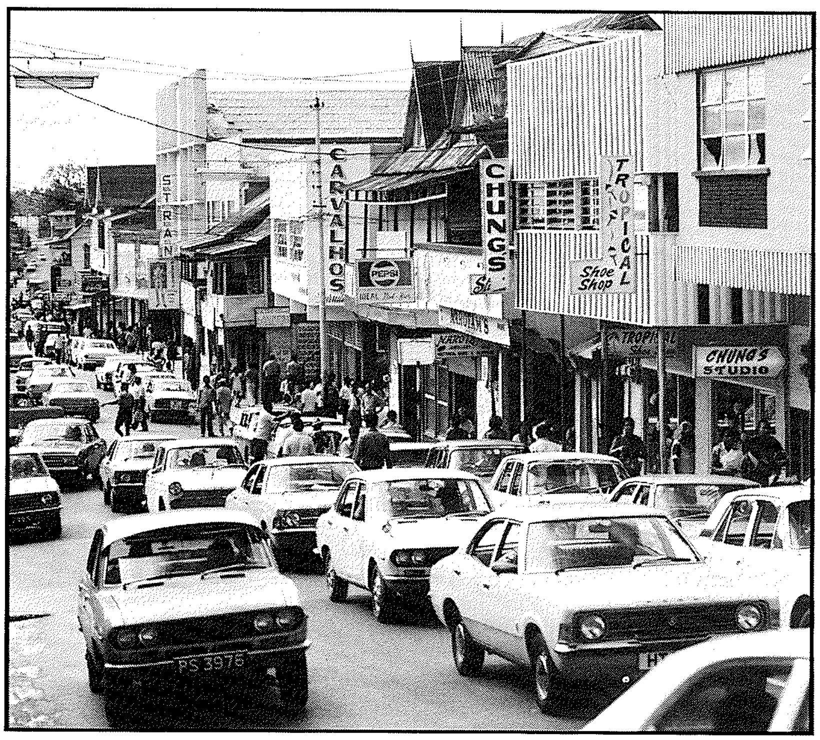
Mr Sanderson invited the conference to consider the following issues:
(a) Does affordability result in a dichotomy between the provision of mortgage housing and rental accommodation and the provision of sites and services, self-help and incremental housing?
(b) Is it a question of segmenting the market with different solutions applied to the peculiarities of the segments?
(c) It seems necessary to offer incentives to the financial sector and to developers for the development of settlements and the provision of shelter. One hears the argument that incentives are misplaced when applied to home ownership.
(d) Are subsidies akin to incentives, and how should they be applied?
(e) Affordability must be related to an acceptable and habitable product. There is the issue of minimum standards regardless of target group and sector of the market. Should building standards be uniform or relaxed for those on low income?
(f) What role is there for research and who is to carry it out?
(g) The plethora of regulatory agencies increases the time and cost of providing shelter. Is a one-stop approval agency the solution?
(h) It is desirable that low cost solutions be pursued, but this raises the question of cost recovery.
(i) Is self-help and incremental housing the solution? If so, what are the basics in terms of sites, services, etc that must form the core of this solution?
(j) The financial environment is important if the private sector is to be a partner. How can entrepreneurs find it rewarding to assist in the settlements effort?

Subsequently, Cynthia Bishop, permanent secretary at the Ministry of Settlements and Public Utilities, gave a paper on the settlements and housing policy of the Government of Trinidad and Tobago.

She said that the basic strategy to be pursued by the Government would be directed at: (a) reducing the cost of housing; (b) reducing the role of the public sector in direct house construction; (c) stimulating the flow of resources from the private sector towards satisfying the housing needs of all income earners; (d) maximising the use of existing resources; (e) rural development.

It is recognised that the financing of shelter cannot be achieved without participation of the private sector. Under the Finance Act 1988, provision is made to declare willing financial institutions "Approved Mortgage Companies" and thereby access a portion of their financial resources for

6 ⟶



Street scene in San Fernando, Trinidad.

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providing mortgage funds to lower income groups.

Agreements will be entered into with these companies to provide for exemption from corporation tax of any income or profits of the company deriving from its business of providing mortgage loans to purchase existing dwelling houses, construction of which commenced after December 1957, or mortgage loans granted for the construction of dwelling houses, up to a maximum of TT$250,000 (TT$7.95 to the £ at 5 December 1988) and at interest rates between 8% and 9%. The agreement provides that a certain percentage of the portfolio must be applied to low income housing.

Other tax incentives are available in the housing sector relating to gains or profits derived from the initial sale of new houses, premiums and rents derived from the letting of new houses and interest on mortgage loans.

An important aspect of the Government's new policy is the shift from the provision of finished housing units to the provision of sites and services, with a basic shelter core to be expanded and improved upon at a later stage by the beneficiaries.

A major thrust of the housing policy is the Squatter Regularisation Programme which commenced in July 1987. The previous policy was legalistic in approach and provided for individuals to seek regularisation through a legal process. It failed to take into consideration the social and technical dimensions of the problem, arising from the fact that squatter communities had developed and any strategy for regularisation had to be based on an approach to the community as a whole.

Under the new policy there is a comprehensive approach based on two principal concepts — rationalisation and settlement. The community is involved at all stages.

The major objectives of the programme are the rehabilitation of squatter communities where practicable, the resettlement of squatters where regularisation is not practical, the regularisation of tenure on tenanted estates, and the containment of spontaneous development.

Substantial financial resources need to be channelled to the housing sector. Direct public investment will concentrate primarily on the provision of shelter for lower income families. Innovative mechanisms for the mobilisation of funds are required. The Ministry is interested in the development of community-based finance institutions such as credit unions, housing co-operatives and local building societies.

> *'Exemption from corporation tax'*

Lending to low income populations

The United States Agency for International Development (USAID) has a long history of involvement in housing and housing finance in the Caribbean. Dr Albert Greve, of the Regional Housing and Urban Development Office of USAID in Kingston, Jamaica, gave a paper entitled "Positive Experiences in Lending to Low Income Populations". Dr Greve's speech concentrated on loans for home improvement as for many people their income is such that they have no alternative but to improve and expand on what they have.

The office in Kingston had collaborated with the Jamaican churches and credit unions to find innovative ways of addressing the problem. A pilot project to provide low income households with greater ease of access to home improvement loans for upgrading the quality of their dwellings had been developed by the Moravian Church Synod and the Moravian Church in the rural town of Mizpah in co-operation with the local branch of the Regional Parish Credit Union and with technical assistance from USAID.

The project was conceived as a means of closing the gap between financial institutions and low income households who often do not qualify for institutional credit or who are afraid to approach a bank or building society or other institution for a loan because of their perception of what would be required. The idea emerged of using a church group or other community group to provide the organisational focus which would benefit the loan recipients and the participating financial institutions.

The Moravian Church Parish in Mizpah has traditionally played a very active role in community development. It initiated a savings club for its members to familiarise them with the concept of savings to encourage them to save on a regular basis. It invested the proceeds to start a variety of income-generating projects in the community. It was well placed to work on the new project. The programme was designed to function around the principle of community involvement and the use of peer pressure to ensure timely loan repayments.

The Church set up a committee to oversee the project at local level with functions including pre-selecting potential programme applicants, providing a skilled building inspector from within the community, providing training and basic financial management and assisting the credit union by assuming some field activities. The Church would also exercise moral authority to encourage timely repayment of loans and it agreed that the savings accounts of beneficiaries would be transferred to the credit union. The credit union agreed to offer immediate membership and immediate availability of credit to the new participants.

The most innovative aspect of the programme was the decision to secure the loans by having each participant co-make each other's loans. Loans were funded in groups of five individuals. These five would co-make each other's loans. Extension of the credit to the next group of five individuals would be contingent on the first group having made at least two full and timely repayments. This peer pressure is important given the lack of traditional guarantees such as title documents to land, property, etc.

The lesson that has emerged from the project is that poor people do repay loans and in many cases do so better than their more fortunate counterparts. One of the reasons for success was the constant guidance and supervision provided by the Church and the strength of the peer pressure in the community.

The first loans were made at the end of 1987 and were disbursed on a voucher system through participating hardware stores in the community. In order to ensure that work costs were reduced and the work completed in a timely manner, the beneficiaries worked on each other's homes.

Based on this experience, not only does the local credit union stand ready to fund more applicants from the same locality, but the main parish office is now planning to expand the programme to other areas within the parish, with the co-operation of the church. Other church groups in the same parish have contacted the credit union to enquire about initiating similar schemes.

There is an opportunity for banks, building societies and other financial institutions to become involved in such projects.

Interest rate policy and low income housing

Compton Bourne, Professor of Economics at the University of the West Indies, St Augustine, Trinidad and Tobago, presented a paper on interest rate policy and low income housing. Professor Bourne commented that unattractive deposit rates would discourage deposit growth even if not engendering a reduction in deposit levels. The dampening effect of low nominal deposit rates would be greater in the inflationary environment since real rates of interest would be even lower and would tend to be negative. With negative real rates of interest, the asset value of financial capital is eroded.

The importance of appropriate interest rate policies for the supply of finance for low income housing is emphasised by the depressing influence of economic recession and unemployment on the share of contractual and quasi-fiscal savings in total personal sector savings. A small reliance has to be placed on increasing the voluntary savings effort of employed persons and other income recipients within the household sector.

The unintended consequence of artificially low interest rates may well be reduced lending capacity and a lower volume of lending in the face of expanded loan demands stimulated by the particular interest rate régime.

'Some degree of tax relief'

There was usually the presumption that mortgage rates of interest accurately measured the financial burden of mortgage financed home ownership. However, the fiscal system in all Commonwealth Caribbean countries provides some degree of income tax relief on mortgage interest payments. Using tax discounted mortgage interest rates as the true measure of interest costs it is by no means clear that current interest rates are unaffordable or disadvantageous to low income households.

However, the fiscal system does confer disproportionate benefits on high income households. It is a pertinent question as to whether more attention should not be directed towards converting those fiscal benefits or implicit mortgage rate subsidies into more direct and certain provision of low income housing than to the questionable pursuit of low mortgage rates as such.

A further consideration is the fact that there is a real rate of return on home ownership. The indices for Barbados, Jamaica and Trinidad and Tobago all suggest substantial capital gains and increases in imputed rental values.

Explicit consideration of interest costs in relation to the returns on home ownership improves the formulation of interest rate policy for two reasons:

(a) it forces recognition of the fact that house acquisition is an investment;

(b) it raises questions of why investors in housing should be subsidised by other investors.

The Sou Sou land approach

Ivan Laughlin gave a paper on the Sou Sou land approach. Mr Laughlin was formerly chairman of the National Housing Authority of Trinidad and Tobago and in that position he had responsibility to lead the planning and implementation of the housing policy based on the Sou Sou land concept. Today he works with a number of small community-based organisations on settlements. The Sou Sou concept attempts to capture the essence of a people centred approach to the creation of viable community settlements. The framework embraces the following fundamental factors:

(a) Recognition of the creative energies in the informal sector. Sou Sou is based on a traditional form of banking within villages through which a fixed number of participants pool their savings, with each participant at appropriate intervals being able to draw the lump sum. Under the Sou Sou land initiative the individual invests money with the Sou Sou land company in affordable instalments, the company purchases the estates and develops them in a process involving the investors, and at the end of the exercise the investor receives his parcel of land.

(b) Village revitalisation both in the urban and rural environments.

(c) Small-scale farming, identified

8 →

as homesteading. This provides an intermediate land use between residential and farmsteading. It provides for the basics of shelter and food to be available and for surpluses to be marketed in a village co-operative endeavour.

(d) The assertion of smallness as a distinct advantage.

(e) Research and experimentation.

After three-and-a-half years' experimentation, 1,200 hectares of land had been purchased in over 13 projects involving the investment of approximately TT$18 million provided by 10,000 participants. At this stage the Government and the planning authorities were in conflict with Sou Sou Land Ltd.

The new Government, elected in December 1986, provided an opportunity to extend the Sou Sou concept. This was a major plank in the governing party's election campaign. Because the Sou Sou land concept was based on the participation of people in the overall development process, the implementation of the policy demanded sensitivity and patience.

The NHA set in train a number of strategies that had to take account of the limited resource capability of the Authority for such an enterprise. The Authority was politically emasculated. It had not been allowed the opportunity of developing its own managerial techniques and approaches to the issues confronting shelter and development. There were huge arrears owed on rentals and mortgage loans, and also innumerable problems related to personnel.

The first strategy had to be the reorganisation of the NHA and this required a long timespan. That activity was pursued by the introduction of collaborative mechanisms with staff and management. The lesson that was learnt was that once the focus was turned inwards and people realised that their participation mattered in the context of an exciting development initiative there was a tremendous amount of goodwill forthcoming.

The second strategy had to deal with the anomalies created by previous NHA policies. It revolved around two major areas. The first was the existing housing estates, especially those built since 1979. There was much concern about the quality of the housing and the high level of mortgage payments. Residents were encouraged to institute organisational machinery to negotiate with the NHA on issues of mortgage revaluation and community upgrading. The result was comprehensive revaluation agreements. A remedial works programme was also initiated.

The second area in this strategy were the rental estates where there was an excess of expenditure for maintenance over income of TT$24 million per annum. The strategy was based on the involvement of the resident communities, who responded with a high level of responsibility and commitment.

The third strategy had to deal with the new settlements thrust. This strategy, based on the Sou Sou land concept, acknowledged the internationally accepted view that governments build shelter at five times the price of the individual and that what is necessary is to provide the land base in a context of community participation and to create mechanisms in the financial sector to allow people to undertake their own housing construction.

The thrust had five elements:

(a) Village expansion.
(b) Comprehensive development.
(c) Squatter regularisation.
(d) Urban renewal and revival.
(e) Financing.

An investment programme was put into effect whereby the participants invested funds in incremental amounts and became eligible for their land once they satisfied specific criteria. The investment programme was structured to create a funding potential to generate a cash flow for the project to be initiated. Because it afforded people in the low income bracket the opportunity for investment in land, it opened up opportunities for the generation of revenue from previously untapped sources. One such source had to do with the repatriation of funds from hard currency areas since investment in land is always attractive and family connections encourage that activity.

The fourth strategy had to deal with the way in which the resource capability of NHA would be expanded without increasing the current expenditure. This was undertaken by three initiatives:

(a) Mobilisation of private sector professional and contractor organisations.

(b) Mobilisation of the financial community. The Minister of Finance, in his 1988 Budget, indicated that special arrangements would be formulated to allow mortgage companies in particular to be able to operate a funding component under special conditions that would assist participants in the programme. The Trinidad and Tobago Mortgage Finance Co was designated to be the agency in the forefront of this activity.

(c) The strengthening of the technical capability of the NHA in particular with regard to this issue of land title.

That, then, was the quantum leap. It was creating confidence, a basis for survival, providing a wide range of opportunities for participants, encouraging the professionals involved in the programme to understand the importance of collaboration with the communities and at the same time allowing the communities to exercise their responsibilities, thereby engendering a new culture of participation and responsiblity.

Process and flexibility are the critical dimensions. There are no overnight solutions. The seeds of a new approach have to be sown in the knowledge that rigid perceptions exist at all levels and allow people the time to respond positively in an atmosphere of perceived accomplishments. ■